

Around Town with the Town Manager #5

As promised in my last column, this column will be the first of many on “TIF’s” – Tax Increment Financing. Co-writing this column is Kimberly Murray, the Town’s Director of Economic and Community Development. She is the Town’s expert on Tax Increment Financing. I could not write this column on this subject without her help.

With several buildings now constructed toward the Town’s long planned “growth center” at Severance Corners, it is time to construct public infrastructure improvements to support this growth. Improvements include an expansion to the Severance Road/US Rte. 7 intersection, pedestrian improvements, and additional water storage for fire protection – an expected cost of approximately \$6.5 million. The Town is considering the State’s Tax Incremental Financing District program (TIF) to pay for the improvements.

The Select Board will hold public hearings on July 13, 2010 and July 27, 2010 at 7:30 p.m. at the Meeting House, 830 Main Street, Colchester to discuss the TIF program with Colchester’s residents. It is likely that a public vote on bonds to be paid by the TIF will not occur until 2011.

What is a “TIF?” *The basic idea behind TIF is to fund public infrastructure improvements that will stimulate private development.* TIF Districts were established by the Vermont Legislature in 1998 to allow municipalities to take up to 75% of new school property taxes revenue (along with certain municipal property tax dollars) to pay the principal and interest for local taxpayer approved bonds. These bonds would pay the costs for roads, water storage, and sidewalks associated with “smart growth” projects.

For Colchester, the first step in the TIF program has already been satisfied: the Town has established a new, State-approved growth center for all four corners of the Severance Corners Development. Next, the Town must secure permission to designate this area as a Tax Increment Financing District. Finally, voters will be asked to approve bonds that could only be used to pay for “infrastructure” needed by the growth center. (The bonds would be paid off with future tax revenues generated from development within the Growth Center.)

To understand how TIF will affect the Town’s use of your taxes, let’s first consider how your tax dollars are spent *now*, without any TIF districting. Imagine that it’s July and you receive your property tax bill from the Town of Colchester – oh, happy day! Your tax bill has two key numbers – the municipal tax and the education tax which, when added together, are what you pay to the Town. As soon as the taxpayer pays that bill, the Town is responsible for transferring the education tax money it collected from the taxpayer to the State Treasury. The Town only retains the municipal tax it collects from the taxpayer to operate the municipality for the coming year. (It’s a State trick that continues the delusion of educational “local control,” but that’s a topic for another time....)

Now let's consider how the TIF program might change this scenario. Let's suppose that the State approves Severance Corners as a TIF district and that Colchester voters approve a bond to fund infrastructure improvements. If you do not live in the Severance Corners approved growth center, your tax dollars will be allocated just as before: the municipal tax on your property tax bill is used exclusively for voter approved Town activities, and your property school tax goes directly to the State Education fund.

However, if you move into a new residence in the new Growth Center after the TIF district is established and the bond is approved, the Town can retain up to 75% of your total property tax as "TIF dollars." That is 25% of that collected tax is retained by the Town for operational expenses and 25% of the educational tax is remitted to the State. The remaining 75% of the municipal tax portion of the property tax and 75% of the school tax is to be used to pay off the bonds that were approved for infrastructure in the new growth center. After twenty years the Tax Increment Financing District disappears and the property taxes are treated just like those coming from the rest of Town.

How will TIF dollars be calculated? TIF dollars take into account the difference between "existing housing" (pre TIF District approval) and "new housing" in a growth area. Let's use the southeast corner of Severance Corners (where Claussen's Greenhouses used to be) as our example. It's an open field right now. That undeveloped land has a value as usable land which both the State and the Town of Colchester tax (the "original taxable value"). Now picture one house being constructed on this land. Before that house can be occupied under State and Town regulations, the house must have water and wastewater service. Getting the water pipe and the sewer pipe to that land's property line is an "infrastructure cost" born by either the Town or the developer. The pipes connecting the house's potable and waste water system to the "infrastructure" (i.e. Town owned pipes) is property of the home owner. With those connections made the land now has a building "fixed" to it. As such, it has a new value. This new value is based on anticipated/received sales price of that new home and land. That sales price becomes the "assessed (developed) value of the (improved) property."

TIF dollars are the difference between the "assessed (developed) value of (improved) property" and the base value of the property (land) in a designated growth center with an approved TIF District. To reiterate, 75% of those TIF property tax dollars can be used by the Town to pay down the bonded indebtedness incurred to build the infrastructure needed to support the development of the growth center.

Believe it or not, during the life of these "TIF dollars," your local school tax portion of the property tax will not be impacted by the Town withholding of "TIF dollars." Acts 60 and 68 provide the school district with a tuition fee for every student attending district schools to fund the schools operational costs. This money comes from the State's Education fund financed by the locally collected education tax based on a community's grand list. I know what I'm saying "will not add up" for many – but the policy is based on the idea that, if the State encourages smart growth, both the Town and State will benefit in the long term from using a portion of school tax dollars now for investment in infrastructure to encourage future economic development.

I am sure we have created a lot of questions by this explanation of Tax Increment Financing. Please forward your questions to Kimberly and me. Please visit www.colchestervt.gov for more TIF information. Keep us challenged by your thoughts and insights about these “fancy dollars.”

Al Voegele and
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